

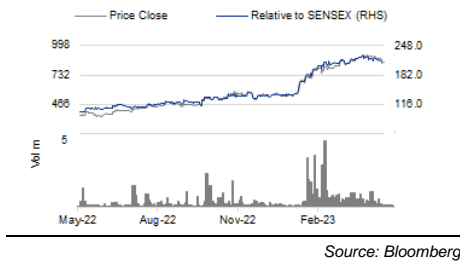
India

**REDUCE** (previously HOLD)

Consensus ratings*: Buy 6 Hold 3 Sell 0	
Current price:	Rs843
Target price: ▲	Rs621
Previous target:	Rs612
Up/downside:	-26.3%
InCred Research / Consensus:	-28.6%
Reuters:	FNXC.NS
Bloomberg:	FNXC IN
Market cap:	US\$1,776m Rs128,966m
Average daily turnover:	US\$5.9m Rs432.0m
Current shares o/s:	152.9m
Free float:	64.1%
*Source: Bloomberg	

**Key changes in this note**

- FY24F revenue cut by 1.6%.
- FY24F/25F EBITDA cut by 4.7%/2.4%.
- FY24F/25F PAT cut by 1.4%/raised by 2.9%, respectively.



<b>Price performance</b>	1M	3M	12M
Absolute (%)	(3.8)	20.2	132.6
Relative (%)	(6.0)	13.4	104.2

<b>Major shareholders</b>	% held
Promoters	35.9
Finolex Industries Limited	14.5
Nippon Life India Trustee	3.4

**Analyst(s)**



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# Finolex Cables

## 4QFY23: Weak results versus expectations

- FCL's 4Q revenue/EBITDA missed our estimates by 7%/13%, respectively. 7% PAT beat on higher-than-estimated other income & share of associate's profits.
- Plans to backward integrate into manufacturing fibre preform for optical fibre. Earmarks Rs3bn capex for preform, fibre drawing tower and cabling capacities.
- Stock price up 50%+ (Jan-May 2023) led by stabilizing cable market share and rumours of an amicable family dispute settlement. Downgrade to REDUCE.

### Revenue growth and margins lower versus expectations

Finolex Cables' (FCL) 4QFY23 consolidated revenue/EBITDA/PAT were at Rs12bn/Rs1.5bn/Rs1.8bn, +3%/21%/70% yoy, respectively, on a weak yoy base quarter. Revenue/EBITDA missed our/Bloomberg consensus estimates by 3-14%. Higher-than-estimated other income (1.5x vs. estimate) and a higher profit share (+23% vs. estimate) of associate (Finolex Industries) led to a PAT beat of 7% vs. our estimate in 4Q. Electrical and communication cable segments' revenue stood at Rs10.3bn, flat yoy, and at Rs1.4bn, +35% yoy, respectively. Peers like Havells, Polycab & KEI reported cable segment's revenue growth at 5%/15%/8% yoy, respectively, in 4Q, much higher vs. FCL. Electrical cable sales volume grew by 7%/16% yoy in 4Q and FY23, respectively. Communication cable sales volume grew by 25% yoy in 4Q and FY23. The FMEG segment's revenue was at Rs453m, down 12% yoy, in 4Q. Consolidated gross/EBITDA margins stood at 21.3%/11.9%, +225bp/+180bp yoy, down 100bp/down 80bp qoq, respectively.

### Plans backward integration into manufacturing fibre preform

FCL has announced a major capex program of Rs3bn over FY24F-25F to backward integrate into manufacturing fibre preform and expansion of fibre drawing tower and cabling capacities. The capex will be completed in phases by Mar 2025F and will ensure timely and high-quality raw material for making optic fibre. The target capacity is 8m fkm each for preform, tower and cabling, and is expected to aid revenue growth (sale of preform to third parties) and margins (higher gross margin/lower inventory carrying cost). The overall capex budget is Rs2.5bn/Rs1bn, excluding replacement capex of Rs250m/year, for FY24F/FY25F, respectively. FCL expects electrical/communication cable revenue to grow in double digits (10-20% range, in our view), FMEG segment's revenue to touch Rs5bn by FY25F-26F and consolidated EBITDA margin at 13-14% over the next two-to-three years.

### Change in our estimates, valuation and risks

We adjust revenue/EBITDA/PAT by -5% to +3% over FY24F-25F. FCL has risen by 50%+ since Jan 2023 till date due to stable cable market share and rumours of an amicable promoter family dispute settlement. We downgrade our rating to REDUCE (from HOLD) with a new target price of Rs621 {Rs444 based on a P/E of 11x (25% discount to five-year mean of 14x) core FY25F EPS + Rs177/share for a 32.4% stake in Finolex Industries at a 25% discount to CMP} vs. Rs612 earlier. Upside risks: Amicable promoter family dispute settlement, and one-time large dividend payout.

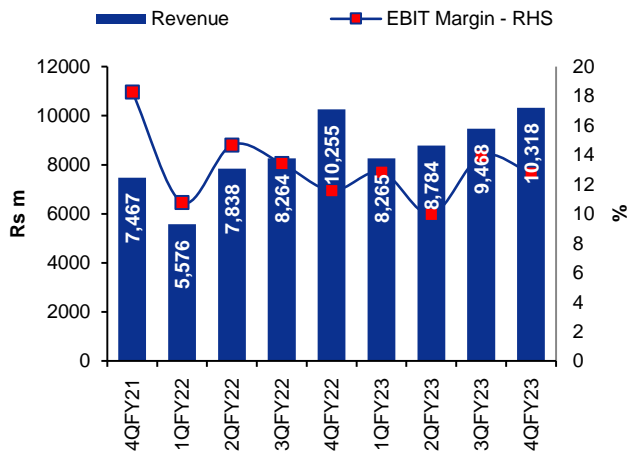
<b>Financial Summary</b>	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,681	37,681	44,811	50,991	57,211
Operating EBITDA (Rsm)	3,702	4,285	5,094	6,356	7,303
Net Profit (Rsm)	4,615	5,991	5,043	7,441	7,954
Core EPS (Rs)	30.2	33.1	33.0	42.5	52.0
Core EPS Growth	18.0%	9.7%	(0.4%)	28.9%	22.4%
FD Core P/E (x)	27.95	21.53	25.58	17.33	16.21
DPS (Rs)	5.5	6.0	7.0	9.0	9.5
Dividend Yield	0.65%	0.71%	0.83%	1.07%	1.13%
EV/EBITDA (x)	30.71	25.53	20.62	16.13	13.37
P/FCFE (x)	(17.27)	139.90	0.00	38.03	21.90
Net Gearing	(44.8%)	(49.9%)	(54.8%)	(53.1%)	(55.7%)
P/BV (x)	3.78	3.29	2.95	2.59	2.29
ROE	14.4%	13.8%	12.2%	13.9%	15.0%
% Change In Core EPS Estimates				(1.81%)	2.93%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY23 earnings-call takeaways

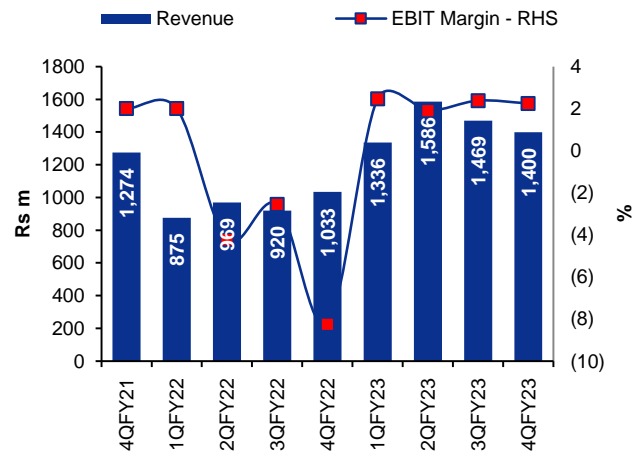
- **Product demand:** Improved activity in realty and infrastructure sectors helped strong cable sales volume growth. Automobile and industrial cable application segments were the star performers in FY23. Expansion of distribution network and big orders from original equipment manufacturers or OEMs in the LAN cable space helped growth in the communication cable segment. FCL was selected as a prime supplier of optical fibre in FY23 for Bharti Airtel. As regards the FMEG segment, high inflation continues to impact discretionary spending while fan channel inventory was abnormally high after the adoption of the new BEE rating norms for ceiling fans in Jan 2023, which resulted in weak FMEG segment's revenue growth in 4QFY23.
- **Growth and margin guidance:** FCL's management expects electrical and communication cable segments to sustain a revenue CAGR of 10-20% based on demand trend and creation of new capacity by the company over the next two-to-three years. FCL targets the FMEG segment's revenue at Rs5bn over the same period. Following the reversal of additional channel incentives given during the Covid-19 pandemic from Apr 2023, consolidated EBITDA margin is expected to trend back to 13-14% (pre-Covid level) over FY24F-25F.
- **Cable sales mix:** Construction wires or housing wires accounted for 60-65% of the electrical cable segment's revenue in FY23. The remaining revenue was equally divided between automotive (~Rs4bn), industrial (~Rs3bn) and agriculture-related cable segments. Low tension power cable revenue stood at Rs1.5-1.75bn in FY23.
- **Price cuts:** Given the softness in copper prices from Apr 2023, FCL has passed on cheaper raw material prices to its customers and took two price cuts of 2% each for electrical cables in May 2023. Any further decline in copper prices could result in channel destocking, which remains a risk for the C&W industry in 1HFY24F.
- **Channel mix:** The shift to direct-to-market (DTM) approach and the appointment of new dealers and retailers yielded positive results for FCL for the year gone by. The new dealers/distributors appointed accounted for nearly 45% of electrical cable sales in FY23 while the remaining 55% came from the erstwhile channel partners of FCL.
- **Capex:** With an eye on the potential, post 5G rollout, FCL is investing in setting up a manufacturing facility for making fibre preforms. The total capex earmarked is Rs3bn (preform, additional capacity for drawing tower and cabling) and the facility is expected to start in phases with full completion by Dec 2024F. The target expanded capacity is 8m fkm for optic fibre production. FCL currently imports its entire preform requirement but now its in-house manufacturing would ensure timely and high-quality raw material for OFC production. Management expects meaningful benefits in gross/EBITDA margins of the OFC segment from FY26F. The target communication cable segment's EBIT margin is 9-10% from FY26F. The consolidated capex is Rs4bn over FY24F-25F, including Rs250m/year of replacement capex.
- **Electron-beam cables:** The orders for machinery from China have been cancelled and new orders have been placed with Korean vendors. Management now expects to complete the first phase of the project in FY24F and the second in FY25F. The total estimated E-beam capex is Rs600m. The technology will be used across multiple cable types such as solar cables, automotive, LT power cables, instrumentation cables for railways, etc.
- **Extra high voltage (EHV) cable business:** The joint venture company - J-Power Systems – reported a revenue of Rs1.25bn and posted profits after a long time in 4QFY23. The JV has an order backlog of Rs2.8bn (132-400kV) in May 2023, and FY24F is expected to be a profitable year.
- **Cash flow:** FY23 OCF/FCF stood at Rs3.6bn/Rs3.2bn, respectively. Net cash, including liquid investments, was at Rs23bn as of end-Mar 2023.

Figure 1: Electrical cable - revenue and margin trend



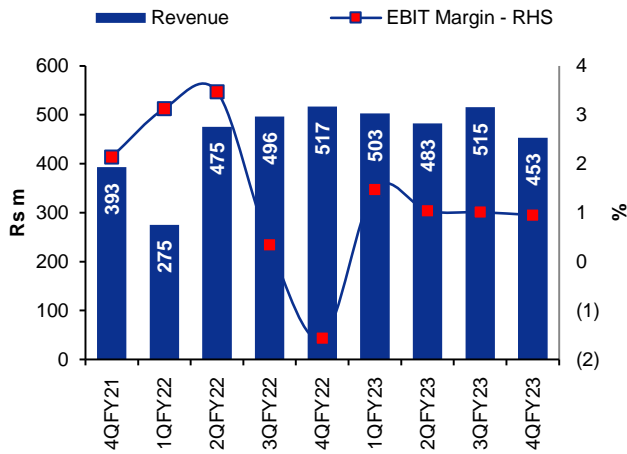
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Communication cable - revenue and margin trend



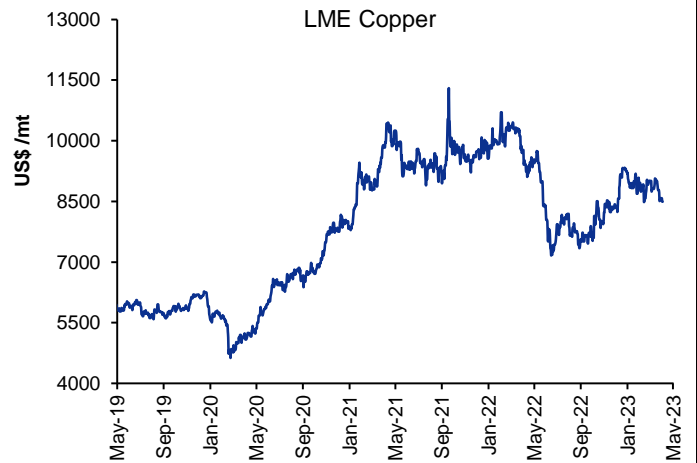
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Others (FMEG) - revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Copper price trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: 4QFY23 results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	12,243	11,869	3.2	11,503	6.4	44,811	37,681	18.9
EBITDA	1,457	1,201	21.3	1,459	(0.1)	5,094	4,285	18.9
EBITDA margin (%)	11.9	10.1	178 bp	12.7	-78 bp	11.4	11.4	0 bp
Adj. PAT	1,750	1,027	70.5	1,543	13.4	5,043	4,773	5.6
Diluted EPS (Rs)	11.4	6.7		10.1		33.0	31.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 6: 4QFY23 segmental results snapshot**

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)
<b>Revenue</b>					
Electrical cables	10,318	10,255	0.6	9,468	9.0
Communication cables	1,400	1,033	35.4	1,469	(4.7)
Copper rods	73	64	14.6	51	43.8
Others (FMPEG)	453	517	(12.3)	515	(12.1)
Inter-segment revenue	3,789	2,958	28.1	3,157	20.0
<b>Total</b>	<b>12,243</b>	<b>11,869</b>	<b>3.2</b>	<b>11,503</b>	<b>6.4</b>
<b>EBIT</b>					
Electrical cables	1,318	1,188	11.0	1,320	(0.1)
Communication cables	32	-85	(137.0)	35	(10.0)
Copper rods	4	10	(60.0)	5	(11.1)
Others (FMPEG)	4	-8	(153.1)	5	(17.3)
<b>Total</b>	<b>1,358</b>	<b>1,105</b>	<b>22.9</b>	<b>1,364</b>	<b>(0.5)</b>
<b>EBIT margin (%)</b>					
Electrical cables	12.8	11.6	119 bp	13.9	-116 bp
Communication cables	2.3	-8.2	1050 bp	2.4	-13 bp
Copper rods	5.5	15.7	-1024 bp	8.9	-339 bp
Others (FMPEG)	0.9	-1.6	252 bp	1.0	-6 bp
<b>Total</b>	<b>8.5</b>	<b>7.5</b>	<b>102 bp</b>	<b>9.3</b>	<b>-84 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Actuals vs. our estimates**

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	12,243	13,221	(7.4)
EBITDA	1,457	1,688	(13.7)
EBITDA margin (%)	11.9	12.8	-87 bp
<b>Adj. PAT</b>	<b>1,750</b>	<b>1,631</b>	<b>7.3</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 8: Actuals vs. Bloomberg consensus estimates**

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	12,243	12,586	(2.7)
EBITDA	1,457	1,651	(11.7)
EBITDA margin (%)	11.9	13.1	-122 bp
<b>Adj. PAT</b>	<b>1,750</b>	<b>1,304</b>	<b>34.3</b>

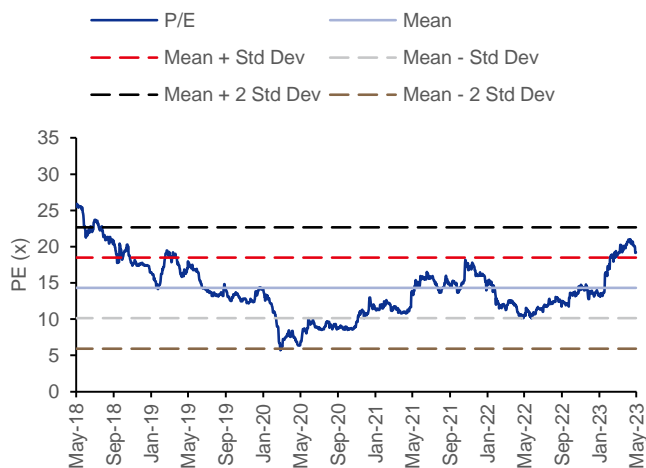
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 9: Our revised earnings estimates**

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	50,991	57,211	51,801	57,225	-1.6	-0.0
EBITDA	6,356	7,303	6,672	7,485	-4.7	-2.4
<b>EBITDA margin (%)</b>	<b>12.5</b>	<b>12.8</b>	<b>12.9</b>	<b>13.1</b>	<b>-41 bp</b>	<b>-31 bp</b>
<b>Adjusted consol. PAT</b>	<b>6,227</b>	<b>7,954</b>	<b>6,314</b>	<b>7,727</b>	<b>-1.4</b>	<b>2.9</b>
EPS	40.7	52.0	41.3	50.5	-1.4	2.9

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

**Figure 10: P/E standard deviation chart (five-year mean)**



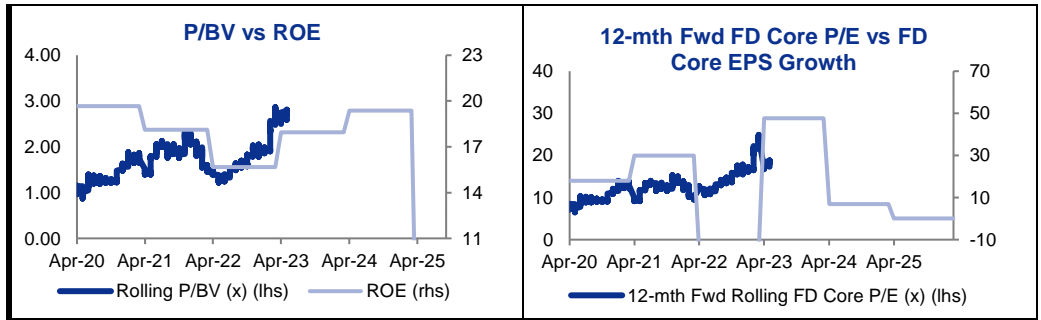
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

**Figure 11: P/E band (one-year forward EPS)**



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>27,681</b>	<b>37,681</b>	<b>44,811</b>	<b>50,991</b>	<b>57,211</b>
<b>Gross Profit</b>	<b>7,167</b>	<b>8,019</b>	<b>9,366</b>	<b>11,218</b>	<b>12,730</b>
<b>Operating EBITDA</b>	<b>3,702</b>	<b>4,285</b>	<b>5,094</b>	<b>6,356</b>	<b>7,303</b>
Depreciation And Amortisation	(390)	(389)	(464)	(544)	(668)
<b>Operating EBIT</b>	<b>3,312</b>	<b>3,897</b>	<b>4,630</b>	<b>5,812</b>	<b>6,635</b>
Financial Income/(Expense)	725	659	1,295	1,037	1,650
Pretax Income/(Loss) from Assoc.	2,234	2,053	700	1,488	1,926
Non-Operating Income/(Expense)	38	40	(130)	50	53
<b>Profit Before Tax (pre-EI)</b>	<b>6,309</b>	<b>6,648</b>	<b>6,495</b>	<b>8,387</b>	<b>10,263</b>
Exceptional Items		1,218		1,215	
<b>Pre-tax Profit</b>	<b>6,309</b>	<b>7,866</b>	<b>6,495</b>	<b>9,602</b>	<b>10,263</b>
Taxation	(1,694)	(1,875)	(1,452)	(2,160)	(2,309)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>4,615</b>	<b>5,991</b>	<b>5,043</b>	<b>7,441</b>	<b>7,954</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>4,615</b>	<b>5,991</b>	<b>5,043</b>	<b>7,441</b>	<b>7,954</b>
Recurring Net Profit	4,615	5,064	5,043	6,500	7,954
<b>Fully Diluted Recurring Net Profit</b>	<b>4,615</b>	<b>5,064</b>	<b>5,043</b>	<b>6,500</b>	<b>7,954</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>3,702</b>	<b>4,285</b>	<b>5,094</b>	<b>6,356</b>	<b>7,303</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,559)	1,495	(330)	(1,365)	(991)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	896	929	596	3,790	3,628
Net Interest (Paid)/Received	(725)	(659)	(479)	(1,037)	(1,650)
Tax Paid	(1,171)	(1,320)	(1,318)	(2,160)	(2,309)
<b>Cashflow From Operations</b>	<b>1,144</b>	<b>4,731</b>	<b>3,563</b>	<b>5,584</b>	<b>5,982</b>
Capex	(549)	(671)	(310)	(2,750)	(1,263)
Disposals Of FAs/subsidiaries		3	(3,245)		
Acq. Of Subsidiaries/investments	(8,341)	(4,302)	810	(500)	(500)
Other Investing Cashflow	296	1,187		1,057	1,671
<b>Cash Flow From Investing</b>	<b>(8,595)</b>	<b>(3,783)</b>		<b>(2,193)</b>	<b>(92)</b>
Debt Raised/(repaid)	(17)	(25)	(12)		
Proceeds From Issue Of Shares			(39)		
Shares Repurchased					
Dividends Paid	(838)	(838)		(1,377)	(1,453)
Preferred Dividends					
Other Financing Cashflow	(8)	(6)	(915)	(20)	(21)
<b>Cash Flow From Financing</b>	<b>(863)</b>	<b>(869)</b>		<b>(1,397)</b>	<b>(1,474)</b>
Total Cash Generated	(8,314)	78		1,994	4,416
<b>Free Cashflow To Equity</b>	<b>(7,468)</b>	<b>922</b>		<b>3,391</b>	<b>5,890</b>
<b>Free Cashflow To Firm</b>	<b>(7,459)</b>	<b>932</b>		<b>3,371</b>	<b>5,869</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	15,296	19,569	23,943	26,438	31,353
Total Debtors	1,766	1,772	2,178	2,794	3,135
Inventories	7,554	6,531	6,746	8,382	9,405
Total Other Current Assets	987	1,020	1,001	1,139	1,278
<b>Total Current Assets</b>	<b>25,602</b>	<b>28,891</b>	<b>33,868</b>	<b>38,753</b>	<b>45,171</b>
Fixed Assets	3,859	3,697	4,218	4,883	6,977
Total Investments	8,453	10,954	10,935	10,935	10,935
Intangible Assets	2	3	14	14	14
Total Other Non-Current Assets	940	1,399	770	2,310	810
<b>Total Non-current Assets</b>	<b>13,254</b>	<b>16,052</b>	<b>15,937</b>	<b>18,142</b>	<b>18,736</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	1,760	1,901	2,087	2,794	3,135
Other Current Liabilities	747	1,015	1,078	1,397	1,567
<b>Total Current Liabilities</b>	<b>2,507</b>	<b>2,915</b>	<b>3,165</b>	<b>4,191</b>	<b>4,702</b>
Total Long-term Debt	3	3	3	3	3
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	159	185	238	238	238
<b>Total Non-current Liabilities</b>	<b>162</b>	<b>187</b>	<b>240</b>	<b>240</b>	<b>240</b>
Total Provisions	2,042	2,617	2,695	2,695	2,695
<b>Total Liabilities</b>	<b>4,712</b>	<b>5,720</b>	<b>6,101</b>	<b>7,127</b>	<b>7,638</b>
Shareholders Equity	34,145	39,221	43,704	49,768	56,269
Minority Interests					
<b>Total Equity</b>	<b>34,145</b>	<b>39,221</b>	<b>43,704</b>	<b>49,768</b>	<b>56,269</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	(3.8%)	36.1%	18.9%	13.8%	12.2%
Operating EBITDA Growth	(3.5%)	15.8%	18.9%	24.8%	14.9%
Operating EBITDA Margin	13.4%	11.4%	11.4%	12.5%	12.8%
Net Cash Per Share (Rs)	99.99	127.92	156.53	172.85	204.99
BVPS (Rs)	223.26	256.43	285.75	325.41	367.92
Gross Interest Cover	435.82	256.35	373.35	290.58	315.93
Effective Tax Rate	26.9%	23.8%	22.4%	22.5%	22.5%
Net Dividend Payout Ratio	13.3%	13.8%	16.5%	16.4%	14.2%
Accounts Receivables Days	23.97	17.13	16.08	17.79	18.91
Inventory Days	119.96	86.66	68.36	69.42	72.98
Accounts Payables Days	29.78	22.52	20.53	22.40	24.33
ROIC (%)	29.8%	30.9%	40.2%	49.4%	43.3%
ROCE (%)	11.9%	11.7%	13.5%	13.9%	14.9%
Return On Average Assets	15.3%	14.3%	11.0%	13.8%	14.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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